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# REGIONAL INTEGRATION IN LATIN AMERICA, GLOBALIZATION AND SOUTH-SOUTH TRADE *

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## ABBREVIATIONS USED

| | |
|---|---|
| **AC:** | Andean Community |
| **AG:** | Andean Group |
| **CACM:** | Central American Common Market |
| **CARICOM:** | Caribbean Community |
| **ECLAC:** | Economic Commission for Latin America and the Caribbean |
| **FDI:** | Foreign Direct Investment |
| **FTAA:** | Free Trade Agreement of the Americas |
| **G3:** | Group of Three (Colombia, Venezuela, Mexico) |
| **GATT:** | General Agreement on Tariffs and Trade |
| **GDP:** | Gross Domestic Product |
| **GSTP:** | Global System of Trade Preferences between Developing Countries |
| **IDB:** | Inter-American Development Bank |
| **LAC:** | Latin America and the Caribbean |
| **LAFTA:** | Latin American Free Trade Association |
| **LAIA:** | Latin American Integration Association |
| **MERCOSUR:** | Southern Common Market |
| **NAFTA:** | North American Free Trade Agreement |
| **WTO:** | World Trade Organization |

## Executive summary

The first section sets out the historical background to the features of regional integration in Latin America between 1960 and 1990. The integration style of this region reflected the protected development models of the period, and developed slowly during the years 1960-1980. The period 1980-1990, known as the "lost decade" in Latin America, is then examined, bringing to light on the one hand the retreat of economic integration in the region and on the other the beginnings of a process of political democratization which was to set the stage for renewed progress towards integration in the following decade.

The second section examines the concept of open regionalism. Firstly, a brief account is given of the main features of the globalization process and of its counterpart at the national level, characterized by development styles that centre around trade liberalization, stabilization, privatization and deregulation of economic processes. This is followed by an outline of the concept of open Latin American regionalism consistent with the ground rules of global multilateralism. Thirdly, evidence is brought forward to show how integrationist initiatives have been extended to the hemisphere as a whole due to the growing involvement of the United States in the construction of free trade areas. Finally, a distinction is drawn between agreements that confine themselves to constructing free trade areas and those that seek to progress towards the stage of customs unions and common markets.

The third section examines the negotiating procedures and the type of undertakings involved in the Free Trade Agreements that have been signed up to in the hemisphere.

The fourth section looks at regional and inter-regional free trade agreements in the 1990s.

The fifth section describes how negotiations are conducted and what type of agreements are contained in those subregional integration schemes of Latin America and the Caribbean that have the objective of setting up customs unions and common markets.

The sixth and final section attempts to draw some conclusions about the role which regional integration processes play or could play in strengthening trading and economic relationships on the south-south axis and in enabling common negotiating positions to be established and consolidated on the north-south axis.

# I. HISTORICAL BACKGROUND TO LATIN AMERICAN INTEGRATION

Among developing regions, Latin America achieved political independence relatively early (19th century). The economic development of Latin American societies was strongly influenced by their colonial past and by the type of primary products that were available for export, as it was through these that they entered the world system of production specialization in the second half of the last century. The peripheral position of those Latin American countries that exported mining, extractive or temperate or tropical zone agricultural products to the developed countries was not conducive to interdependence among their economies in the spheres of trade and investment.

It is well known, furthermore, that during the first half of the 20th century each of the large and medium-sized economies of Latin America responded to major international crises (first world war, 1930s depression, second world war) by developing an industrialization process that was oriented towards their own domestic market, and their major metropolitan areas in particular. This process, which began with the intention of making good the shortage of manufacturing imports from the central countries affected by these international crises, was subsequently consolidated by means of systems of stimulation and protection, adding up to what is known as import substitution industrialization. Again, the initial stage of this process was not conducive to economic interdependence among the countries of Latin America, whose trade with one another remained at low levels.

At the beginning of the 1960s two integration agreements were signed with the objective of constructing free trade areas as a first step towards further-reaching forms of integration. Thus there arose the Latin American Free Trade Association (LAFTA) and the Central American Common Market (CACM). LAFTA included the ten independent countries of South America plus Mexico, and CACM the five countries of the Central American isthmus.

In terms of geographical, demographic and economic "size", LAFTA represented (and still represents) around 85% of all of Latin America and the Caribbean, the remainder being accounted for by the Central American countries that were members of CACM and by the Spanish, French and English-speaking Caribbean countries, some of which would later form the Caribbean Community (CARICOM).

In the case of CACM, tariff reductions were swift and wide-ranging, giving rise to a substantial increase in reciprocal trade which, however, quickly stagnated (measured as a percentage of total trade), due mainly to the limited range of products that the member countries had available for export.

In the case of LAFTA, the negotiating mechanism was more cautious and gradual. Its large and medium-sized members had built up national industries on the basis of protectionist criteria which were still widely adhered to. The industrial structures of the major countries overlapped to a great degree, and the limited size of national markets reduced the scope for specialization and economies of scale. The limitations thus imposed by domestic market-oriented development were highlighted in a number of

studies produced at the time by the Economic Commission for Latin America (ECLAC), a leading advocate of the integration process at this stage.

The negotiating procedures applied in LAFTA, however, tended to stifle much of the initiative. The products included in the lists for negotiation were not always among the most important in the trade between the countries, and any product not included in these lists continued to be subject to tariffs. In the event, protectionist practices prevailed over integrationist intentions, and the increase in reciprocal trade attributable to the trade liberalization that ensued turned out to be quite modest.

In addition, the Andean countries considered that they were not receiving sufficiently fair treatment (in the distribution of opportunities to industrialize) from the "big" countries and, without breaking away from LAFTA, they decided to sign the Cartagena Agreement, which produced the Andean Group (AG) in 1969. During the ten years that followed, trade within LAFTA (measured as a proportion of its total trade) continued to grow at very moderate rates, and the same happened within the AG. After a strong initial spurt, exports between the countries of CACM also stagnated as a percentage of total trade (see table 1). By the beginning of 1980, exports between the countries of Latin America and the Caribbean (LAC), expressed as a percentage of the total, had risen from 8.8% in 1960 to 16.4%. This was meagre progress after twenty years of efforts towards integration.

The protected development strategy based on import substitution industrialization began to lose credibility in the 1970s. On the one hand a number of large and medium-sized countries in South America experienced spells of rampant inflation. Subsequently, there was a large inflow of "Eurodollars" from the strengthened world "petroleum cartel", which were offered by private commercial banks at negative real interest rates. This stage coincided with a period of recession with inflation ("stagflation") in the United States and other major developed countries, which produced a kind of subsidy for countries in receipt of credits. These cheap and abundant "Eurodollars" lifted exchange rates, opening the way for trade "liberalization" that began to weaken uncompetitive Latin American industries.

At the beginning of the 1980s, the main thrust of economic policy, in Great Britain first and in the United States, was to control inflation in the developed countries by applying policies which entailed rising real interest rates internationally. The world recession of this period meant tumbling prices for primary products, including petroleum. In Latin America, the economic bonanza abruptly ended, and the difficult recessive adjustment of the beginning of that decade commenced. The acute shortage of currency (dollars) resulting from the reorientation of external credits towards developed countries, combined with the fall in real prices for the primary products exported by the region, led to the region experiencing the most severe interruption in its growth since the crisis of the 1930s.

The need to generate trade surpluses in order to finance the heavy costs of debt servicing led to imports between the countries of the region being cut back sharply, with all the negative repercussions that this obviously had for the corresponding exports. By the mid-1980s, exports between these countries as a percentage of total trade had returned to levels scarcely higher than those seen in the 1960s, at the time the integration process began (see table 1). At the beginning of that same decade LAFTA was replaced by the Latin American Integration Association (LAIA), a much more flexible agreement that left room for what are called "partial scope" arrangements between two or more members, with considerable freedom in drawing up the clauses of these. This liberal framework was to prove very workable under the new conditions for Latin American integration which came into being in the 1990s.

Table 1

**LATIN AMERICA AND THE CARIBBEAN: EXPORTS IN TOTAL AND BY SUBREGIONAL INTEGRATION SCHEME**

*(In billions of dollars, f.o.b. and percentages)*

| | 1960 | 1970 | 1980 | 1981 | 1982 | 1983 | 1985 |
|---|---|---|---|---|---|---|---|
| **LAIA** | | | | | | | |
| 1. Total exports | 7.3 | 12.8 | 80.3 | 87.0 | 80.5 | 79.8 | 85.4 |
| 2. Exports to LAIA | 0.6 | 1.3 | 10 9 | 11.9 | 9.9 | 7.0 | 7.1 |
| 3. Percentage of exports within LAIA (2:1) (%) | 7.7 | 9.9 | 13.6 | 13.7 | 12.3 | 8.8 | 8.3 |
| **Andean Community** | | | | | | | |
| 1. Total exports | 3.6 | 5.4 | 30.6 | 29.8 | 26.0 | 23.4 | 24.3 |
| 2. Exports to Andean Group | 0.0 | 0.1 | 1.1 | 1.2 | 1.2 | 0.8 | 0.8 |
| 3. Percentage of exports within Andean Group (2:1) (%) | 0.7 | 1.8 | 3 7 | 4.0 | 4.8 | 3.5 | 3.2 |
| **Mercosur** | | | | | | | |
| 1. Total exports | | | 29.5 | 33.9 | 29.2 | 31.0 | 35.2 |
| 2. Exports to Mercosur | | | 3.4 | 3.0 | 2.4 | 1.8 | 2.0 |
| 3. Percentage of exports within Mercosur (2:1) (%) | | | 11.6 | 8.9 | 8.1 | 5.9 | 5.5 |
| **Central American Common Market** | | | | | | | |
| 1. Total exports | 0.4 | 1.1 | 4.5 | 3.8 | 3.4 | 3.5 | 3.5 |
| 2. Exports to CACM | 0.0 | 0.3 | 1.1 | 0.9 | 0.8 | 0.8 | 0.5 |
| 3. Percentage of exports within CACM (2:1) (%) | 7.0 | 26.2 | 25.4 | 24.7 | 22.4 | 21.6 | 15.5 |
| **CARICOM** [a] | | | | | | | |
| 1. Total exports | | | 5.9 | 5.5 | 4.6 | 3.9 | 3.3 |
| 2. Exports to CARICOM | | | 0.5 | 0.5 | 0.5 | 0.5 | 0.4 |
| 3. Percentage of exports within CARICOM (2:1) (%) | | | 8.3 | 9.6 | 11.0 | 12.3 | 11.3 |
| **Latin America and the Caribbean** [b] | | | | | | | |
| 1. Total exports | 8.6 | 15.3 | 95.1 | 100.7 | 90.6 | 90.8 | 96.9 |
| 2. Exports to Latin America and the Caribbean | 0.8 | 2.0 | 15.6 | 16.8 | 14.0 | 10.9 | 10.3 |
| 3. Intraregional percentage/Total (2:1) (%) | 8.8 | 13.3 | 16.4 | 16.6 | 15.5 | 12.0 | 10.6 |

**Source:** ECLAC, on the basis of official information.

[a] Includes estimated figures for the years and countries indicated: 1982, Haiti; 1983, Haiti; 1984, Haiti; 1985, Haiti.

[b] Includes 11 countries from LAIA, 5 from CACM, 4 from CARICOM (Barbados, Guyana, Jamaica and Trinidad and Tobago), plus Bahamas, Belize, Dominican Republic, Haiti, Panama and Suriname.

The approaching audit of the Bretton Woods institutions that were "guarantors", so to speak, for the debt refinancing operations that LAC negotiated with creditor banks, in combination with the decline of the protected growth model, helped bring about the transition towards the new development strategy adopted in the 1990s.

## II. GLOBALIZATION AND OPEN REGIONALISM

The information technology revolution is at the heart of the economic globalization process which has taken shape in the 1990s. One of its most important consequences for international economic relationships has been the falling cost of transportation, telecommunications and international transactions in general.

The economies of Latin America evince the two main features of the economic globalization process: the internationalization of national economies and the transnationalization of companies.

The internationalization of Latin American economies can be measured by the growing proportion of international components in aggregate macroeconomic indicators, that is to say by the coefficients of economic openness in terms of international trade, investment, etc. These are quantitative expressions of a liberalization strategy which is manifested in the reduction of tariff barriers and in the continuing relaxation of regimes governing foreign direct investment, movements of financial capital, and exchange rates.

The transnationalization of companies can be measured by the growth in the direct involvement of transnational companies in world flows of trade and capital. These trends, which are empirically verifiable, are developing in accordance with the ground rules of global multilateralism, which give these companies more room for manoeuvre and within which their global operating strategies are set.

Latin American integration in the 1990s is based on the strategy of open regionalism, which is fully compatible with the tendency of companies towards transnationalism and of nations towards greater openness to the outside world. In practice, open regionalism (like any other form of regionalism) expresses a practice whereby members of an agreement grant one another preferences which are not available to the rest of the world. It therefore conflicts with the principles of non-discrimination and national treatment on which the multilateralism promoted by the WTO and the Bretton Woods institutions is essentially based. This conflict of principles, however, is dealt with by means of conciliatory provisions, like the GATT provisions which authorize the Generalized System of Preferences, or those which permit the creation of Customs Unions (article XXIV). To sum up, open regionalism is a system of preferences which creates trade between the members of the agreement, without raising the barriers that already existed with respect to the other countries of the world.

For the current strategy of open regionalism to be properly grasped, a distinction needs to be drawn on the one hand between vertical and horizontal forms of regionalism and, on the other, between asymmetrical and symmetrical forms of regionalism. Vertical forms of open regionalism link countries in the north and south under the same agreement, while horizontal forms are of a south-south or north-north type. Asymmetrical forms of open regionalism entail preferences that are not reciprocal, while symmetrical forms involve symmetry in the type and extent of preferences granted by the parties concerned.

In Latin America, for example, the four subregional agreements currently in operation are the Southern Common Market (MERCOSUR), the Andean Community (AC), the Central American Common Market (CACM) and the Caribbean Community (CARICOM). All of these are manifestations of **open regionalism** (compatible with WTO rules) that is **horizontal** (of the south-south type) and **symmetrical** (because of the reciprocal nature of the preferences granted).

The Caribbean Basin Initiative is an example of regionalism which is **open** because it is compatible with WTO rules, **vertical** because it links the United States with its smaller neighbours in Central America and the Caribbean, and **asymmetrical** because that country has granted economic preferences without requiring reciprocity from the beneficiaries.

The North American Free Trade Agreement (NAFTA) and the Free Trade Agreement of the Americas (FTAA) are both examples of regionalism that is **open** (WTO compatibility), **vertical** because they link the United States (north) with its neighbours to the south, and **symmetrical** because when the agreements are fully operational all the members will be subject to the same conditions. A special characteristic of the FTAA is that it recognizes existing subregional agreements and allows the members of these agreements to negotiate en bloc.

There is another set of free trade agreements of the south-south type, of which most are bilateral while one is trilateral: the Group of Three (G3). Finally, other agreements of a south-south type are currently being drafted, the parties to these being agreements (and not countries) that negotiate en bloc. This is the case with the Free Trade Agreement that has begun to be negotiated between the Southern Common Market and the Andean Community. Using the categories referred to above, these may be termed **horizontal and symmetrical** forms of **open regionalism** (Di Filippo, 1997).

Another way of classifying agreements is by whether they are one-dimensional or multidimensional. **Free trade** agreements fall into the first category while **customs unions** aiming at the creation of **common markets** fall into the second. This subject will be expanded on in the three sections that follow.

## III. HEMISPHERE-WIDE FREE TRADE AGREEMENTS

The **hemisphere-wide** free trade agreements already signed or now being negotiated are, strictly speaking, preferential market areas that have far wider scope than visible trade alone. They include commitments relating to services, investment and intellectual property, as well as temporary movements by people providing services of some type.

Hemisphere-wide free trade agreements, while qualifying for the description of open, vertical and symmetrical regionalism, may also be regarded as one-dimensional or "market-limited" agreements, inasmuch as no political or cultural aspects are included in the undertakings signed up to. The political aspects of integration relate to willingness to cede or share national sovereignty in formulating harmonized or common regimes or policies, and to grant people civil, political or social rights, for example national and non-discriminatory treatment for migrants from other member countries.

FTAA and NAFTA, being "free trade" agreements (preferential market areas) do not include cooperation in devising common or harmonized regimes or policies (for trade, taxes, exchange rates, etc.) between the members (which would involve ceding or sharing sovereignty), and nor do they make any provision for national and non-discriminatory treatment for migrants from other states that are signatories to the Agreement. They are, so to speak, **market-limited** forms of integration, since they do not even aspire to any institutionally far-reaching **economic** agreements of the type that are gradually constructed by creating customs unions (common trade policies) or common markets (tax and exchange rate harmonization, or even monetary union).

Likewise, these hemisphere-wide agreements do not include the option of negotiating en bloc with outside countries or groups of countries. The reasons for this limitation are obvious: a major power like the United States is not going to subordinate its national regimes and policies to restrictions deriving from agreements with developing nations, which means that preferential market areas ("free trade") are the maximum that can be achieved in terms of reciprocal undertakings.

The FTAA negotiations began at the Santiago Summit in Chile, in April 1998, and it is hoped that significant results will be obtained by the end of the century, with negotiations being concluded around 2005. At this point a programme of tariff reductions will begin, after which it will probably take 10 or 15 years before the Agreement is fully operational.

The FTAA is remarkable for the unprecedented number of countries (34) that will take part in the negotiations; for their diversity in terms of size and development level; for the fact that most of the countries negotiating are already members of a subregional integration agreement; and, above all, for the vertical character of the agreement, as it includes two developed countries (Canada and the United States) which are seeking to conclude a symmetrical and reciprocal agreement with the other 32 American nations. The case of Cuba is very special and will not be considered in the remarks that follow.

In 1990 dollars, the gross domestic product of the United States was around 6.7 trillion dollars in 1996, while that of Canada was 583 billion, and that of all the LAC countries combined 1.3 trillion. Thus, the United States economy is five times the size of all the 32 economies of LAC combined, and 3.5 times the size of the other 33 economies of the hemisphere (including Canada) combined. Per capita incomes in the Latin American and Caribbean economies, measured using parity exchange rates, range, as percentages of US incomes, from around 30% in the cases of Chile, Argentina and Venezuela to 14% in the case of Peru, around 10% for the Central American economies (except Costa Rica with 20%), and 5% in the case of Haiti (World Bank, 1995).

The asymmetries referred to relate not only to the ability of countries to compete on equal terms once the agreement is fully implemented, but also to the intellectual and institutional resources they have available to conduct the coming negotiations. When the FTAA comes into force, these countries of such differing sizes and degrees of development will have agreed, on a basis of equality, to remove all barriers to trade in goods and services, to give non-discriminatory national treatment to movements of productive capital, and to respect intellectual property rules.

It is interesting to note that this striking asymmetry is also to be found in NAFTA, another hemisphere-wide agreement which has already been signed up to and which is now in the process of being implemented. The two "junior" partners, Canada and Mexico, send more than 80% of all their respective exports to the United States, and a similarly high percentage of their imports are from that country. Canada, however, has labour costs and living standards that are fairly close to those of the United States, and a north-north type intra-industrial trade has developed between the two countries, the tendency being to take advantage of economies of scale and specialization. The case of Mexico is different: there is also a vigorous intra-industrial trade on the northern border of that country, but the investors who set up in the export processing zones (assembly plant zones) of Mexico are seeking to turn to account the advantages of the location, these being the lower labour and environmental costs of Mexico and the low freight charges deriving from proximity to the United States market.

The subregional agreements of LAC (CACM, CARICOM, AC and MERCOSUR) have quite differing positions and interests in the FTAA negotiation process. The first two of these subregional agreements (as well as some countries that are not members, like the Dominican Republic), take advantage of their geographical proximity and lower wage and environmental costs to produce goods and services (including tourism) with which to supply the United States market.

On the other hand, in South America MERCOSUR (with Chile, which is not a full member of this agreement) and the AC are not situated close enough to the large United States market to justify export processing zones designed to supply it. In these South American blocs, foreign direct investment in manufacturing (food, cars, chemicals, etc.) is aimed at the subregional markets in which this investment is located. On the other hand, mining and extractive investment and agricultural investment is oriented mainly towards the major markets of the developed world, not just the United States but also Europe and Japan. Most transnational services investment is intended to service the markets being invested in.

This ever-closer relationship between trade and investment is one of the keys to understanding the reciprocal interests of the parties to FTAA, and to interpreting the implicit or explicit strategies of the major transnational companies, which are associated with the advantages these countries offer in terms of location, internalization and control over technical progress.

In the case of Mexico, Central America and the Caribbean, the transnational companies of the developed world are interested in their advantages as locations. They wish firstly to take advantage of their low labour and environmental costs, and secondly to minimize the cost of shipping goods to the great market of the United States (and, in the case of Mexico, to take advantage of NAFTA preferences).

In their relations with the AC and MERCOSUR, however, transnational investors, although they are interested in taking advantage of the lower local costs, do not obtain the competitive benefits associated with geographical proximity to the United States or with the preferences which that country gives to Mexico, Central America and the Caribbean, but not to South America. In the case of the AC and MERCOSUR, therefore, direct investment is aimed at developing cheap and abundant natural resources for the world market, building up manufacturing activities (food, chemicals, vehicles, etc.) primarily to service the local subregional market in which this investment is sited, and to a lesser degree the hemisphere or the rest of the world, and investing in services (energy, telecommunications, trade, banking, insurance, etc.), again for these same subregional markets.

Taking into consideration the size and economic dynamism of the different subregions that are negotiating the FTAA, the interest of the United States as regards market access is focused primarily on South America. The Mexican and Canadian markets are already highly integrated with the United States economy, and the same is true, although to a lesser extent, of the small markets of Central America and the Caribbean. By contrast, the degree of trade integration with South America is lower, particularly in the case of MERCOSUR. It should be noted, finally, that the annual rate of GDP growth during the period 1990-1995 was 1.9% in the United States and 3% in Latin America; again, the annual rate of growth in imports (by volume) during the same period was 7% and 12.8% respectively (see table 4).

In order to preserve common subregional interests and take advantage of "specialization and economies of scale" in respect of negotiating teams, MERCOSUR has already stated that it will negotiate the FTAA en bloc. CARICOM has said the same, and it is likely that the AC and CACM will end up by taking the same decision. This would appear to constitute a de facto recognition of the fact that the negotiations will be exceedingly complex (many countries and interests) and very asymmetrical (enormous differences in development levels), and of the existence of subregional blocs with common interests which are worth defending jointly.

## IV. LATIN AMERICAN FREE TRADE AGREEMENTS

With the exception of Mexico, Chile, the Dominican Republic, Panama and Cuba, all the countries of LAC that are politically independent are members of one or other of the four subregional agreements mentioned in the previous section. The case of Cuba is very special and will not be considered in the remarks that follow.

Chile has signed bilateral free trade agreements with the following countries: Mexico (1991), Colombia (1993), Venezuela (1993), Costa Rica (1994), Ecuador (1994) and Canada (1997). It has also signed a free trade agreement (of what is known as the "1 + 4" type) with the **bloc** of countries that make up MERCOSUR, and is negotiating another similar one with the members of CACM. At the inter-regional level, it is negotiating a free trade agreement with the European Union (EU).

Mexico has signed bilateral free trade agreements with the following countries: Bolivia (1994), Costa Rica (1994) and Nicaragua (1998), and is negotiating agreements with Belize, Ecuador, Peru and Panama. Furthermore, in 1993 it joined NAFTA (along with the United States and Canada) and, in 1994, the G3 (together with Colombia and Venezuela). It is currently negotiating another free trade agreement with El Salvador, Guatemala and Honduras. Finally, like Chile, it has opened negotiations for a free trade agreement with the EU.

The Dominican Republic (a Caribbean island state, bordering Haiti) is negotiating separate free trade agreements with CARICOM and the CACM.

Panama is negotiating a free trade agreement with Mexico, is attempting to negotiate another one with the Andean Community, and attends CACM meetings as an observer.

As regards subregional blocs, MERCOSUR is negotiating free trade agreements with the members of the AC, and CARICOM is doing so with CACM. Finally, MERCOSUR is negotiating a free trade agreement as a bloc with the EU, and is preparing to carry out collective negotiations for membership of FTAA.

It should be noted that all the free trade agreements that have been or will be signed between countries or blocs of countries in the western hemisphere will lapse and be incorporated into the FTAA in 2005, if the timetable for the signing of this agreement is followed. The only agreements which will survive after that date will be the subregional ones (MERCOSUR, AC, CACM and CARICOM) which have achieved (or intend to achieve) the stages of customs union, and are pursuing the further objective of creating a common market.

In conclusion, the countries of Latin America and the Caribbean that are following the strategy of signing bilateral free trade treaties (Mexico, Chile, Dominican Republic, Panama) are those which are not full members of any of the four subregional treaties that aim at far-reaching integration. All of these appear to have opted for unilateral trade liberalization and to have decided that hemisphere-wide integration must be the primary objective. Nonetheless, it cannot be ruled out that these countries might in the next few years be incorporated more fully into whichever of the different subregional agreements are most appropriate to them.

## V. SUBREGIONAL CUSTOMS UNIONS

Four incomplete or incipient customs unions are operational in Latin America and the Caribbean, the long-term objective of these being to establish common markets or even economic communities. It is convenient to deal with these in two different groups: CACM and CARICOM on the one hand, and MERCOSUR and the AC on the other.

In 1996, CACM (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) had a population of 30 million people, a gross domestic product of 30 billion 1990 dollars, and per capita output of 1,000 dollars in that same monetary unit. The member countries have freed up reciprocal trade, are consolidating a common external tariff, and aspire to far-reaching multidimensional integration between themselves. Between 1990 and 1996, their exports to one another, measured as a percentage of total exports, rose from 17.3% to 21.5% (see table 2).

CARICOM is made up of more than a dozen Caribbean island "micro-states" which, in 1996, contained a total population of 6 million people generating GDP of 16 billion dollars, with per capita output of 2,737 1990 dollars. They have freed up reciprocal trade, and have a common external tariff. In the 1990s their exports to one another, measured as a percentage of total exports, rose from 12.4% in 1990 to 16.2% in 1996 (see table 2).

These two groupings are beneficiaries of the Caribbean Basin initiative, but have been adversely affected by the incorporation of Mexico into NAFTA, which eroded the margin of the preferences granted to them by the United States. The member countries of CARICOM, again, are beneficiaries of the Lomé Agreement which the EU operates for the benefit of its former colonies. Like Mexico, they have developed export processing zones (assembly plant production) housing subsidiaries of transnational firms from the United States, Europe and Asia which locate there to take advantage of the low costs (for wages, environmental and energy costs, etc.) and to export to the United States, benefiting from the geographical proximity of that huge market.

The Andean Community (Bolivia, Colombia, Ecuador, Peru and Venezuela) had, in 1996, a population of 100 million people, gross domestic product of 204 billion 1990 dollars, and output per head of approximately 2,000 1990 dollars. It has freed up the bulk of subregional trade and established a fledgling and incomplete common external tariff, and intends to progress towards far-reaching multidimensional forms of integration. Exports between the member countries rose from 4.1% of the total in 1990 to 10.4% in 1996.

Table 2

## LATIN AMERICA AND THE CARIBBEAN: EXPORTS IN TOTAL AND BY SUBREGIONAL INTEGRATION SCHEME

*(In billions of dollars, f.o.b., and percentages)*

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996[a] |
|---|---|---|---|---|---|---|---|
| **LAIA** | | | | | | | |
| 1. Total exports [b] | 112.7 | 110.6 | 134.9 | 145.2 | 170.3 | 206.3 | 231.7 |
| 2. Exports to LAIA | 12.2 | 15.1 | 19.4 | 23.7 | 28.4 | 34.8 | 39.4 |
| 3. Percentage of exports within LAIA (2:1) (%) | 10.8 | 13.6 | 14.4 | 16.3 | 16.7 | 16.9 | 17.0 |
| **Andean Community** | | | | | | | |
| 1. Total exports | 30.8 | 28.6 | 28.3 | 29.8 | 34.8 | 40.2 | 45.4 |
| 2. Exports to Andean Group | 1.3 | 1.8 | 2.2 | 2.9 | 3.5 | 4.8 | 4.7 |
| 3. Percentage of exports within Andean Group (2:1) (%) | 4.1 | 6.2 | 7.8 | 9.7 | 10.1 | 11.9 | 10.4 |
| **Mercosur** | | | | | | | |
| 1. Total exports | 46.4 | 45.9 | 50.5 | 54.2 | 62.1 | 70.3 | 74.9 |
| 2. Exports to Mercosur | 4.1 | 5.1 | 7.2 | 10.0 | 12.0 | 14.4 | 17.0 |
| 3. Percentage of exports within Mercosur (2:1) (%) | 8.9 | 11.1 | 14.3 | 18.5 | 19.3 | 20.5 | 22.7 |
| **Central American Common Market** | | | | | | | |
| 1. Total exports | 4.0 | 4.4 | 4.6 | 5.1 | 5.5 | 6.9 | 7.4 |
| 2. Exports to CACM | 0.7 | 0.8 | 1.0 | 1.1 | 1.2 | 1.5 | 1.6 |
| 3. Percentage of exports within CACM (2:1) (%) | 17.3 | 18.7 | 21.7 | 21.6 | 21.8 | 21.1 | 21.5 |
| **CARICOM** | | | | | | | |
| 1. Total exports | 4.1 | 4.0 | 4.0 | 3.8 | 4.5 | 5.1 | 5.2 |
| 2. Exports to CARICOM [c] | 0.5 | 0.5 | 0.5 | 0.5 | 0.6 | 0.8 | 0.8 |
| 3. Percentage of exports within CARICOM (2:1) (%) | 12.4 | 11.3 | 11.5 | 14.0 | 14.0 | 16.1 | 16.2 |
| **Latin America and the Caribbean [d]** | | | | | | | |
| 1. Total exports | 121.7 | 120.7 | 145.9 | 156.4 | 181.9 | 219.5 | 246.1 |
| 2. Exports to Latin America and the Caribbean | 16.2 | 18.8 | 23.9 | 28.8 | 34.2 | 41.7 | 45.5 |
| 3. Intraregional percentage/Total (2:1) (%) | 13.3 | 15.6 | 16.4 | 18.4 | 18.8 | 19.0 | 18.5 |

**Source**: ECLAC, on the basis of official information.

[a] With estimates for Bolivia, Paraguay and Venezuela.

[b] From 1992 onwards, includes assembly plant exports from Mexico.

[c] Does not include exports within CARICOM from Guyana or from Antigua and Barbuda.

[d] Includes LAIA, CACM, CARICOM, Haiti, Dominican Republic and Panama.

Because of the peculiar "longitudinal" geographical distribution of its members, the Andean Community lacks some of the economic advantages of natural areas of integration, and this is reflected in the relatively low proportion accounted for by reciprocal trade between its members (despite the spectacular growth that has been seen during this decade). The member countries of the AC have experienced difficulties with the stability of their political regimes, as well as border frictions or conflicts, which have not helped to create the conditions needed for progress to be made towards multidimensional forms of integration. To look beyond these difficulties, however, the member countries have displayed a firm resolve to strengthen the institutional aspects of the Agreement. At the Trujillo Meeting of Presidents (1996), a new institutional structure was created whereby the Andean Group was converted into the Andean Community, with a Council established at presidential level and charged with setting the political course of the Agreement. The intention of continuing to advance down the road of multidimensional integration, and of joining forces to defend common interests in external negotiations, has been reaffirmed.

MERCOSUR (Argentina, Brazil, Paraguay, Uruguay) had 207 million inhabitants in 1996, with gross domestic product of 725 billion 1990 dollars and GDP per head of 3,500 dollars. It has freed up most of its reciprocal trade and established a common external tariff, and is planning to work towards the establishment of a common market. The percentage of exports between member countries as a proportion of the total grew from 8.9% in 1990 to 22.7% in 1996 (see table 2). It thus achieved a higher percentage of reciprocal exports as a proportion of the total than any other subregional agreement (IDB 1997 and ECLAC 1998).

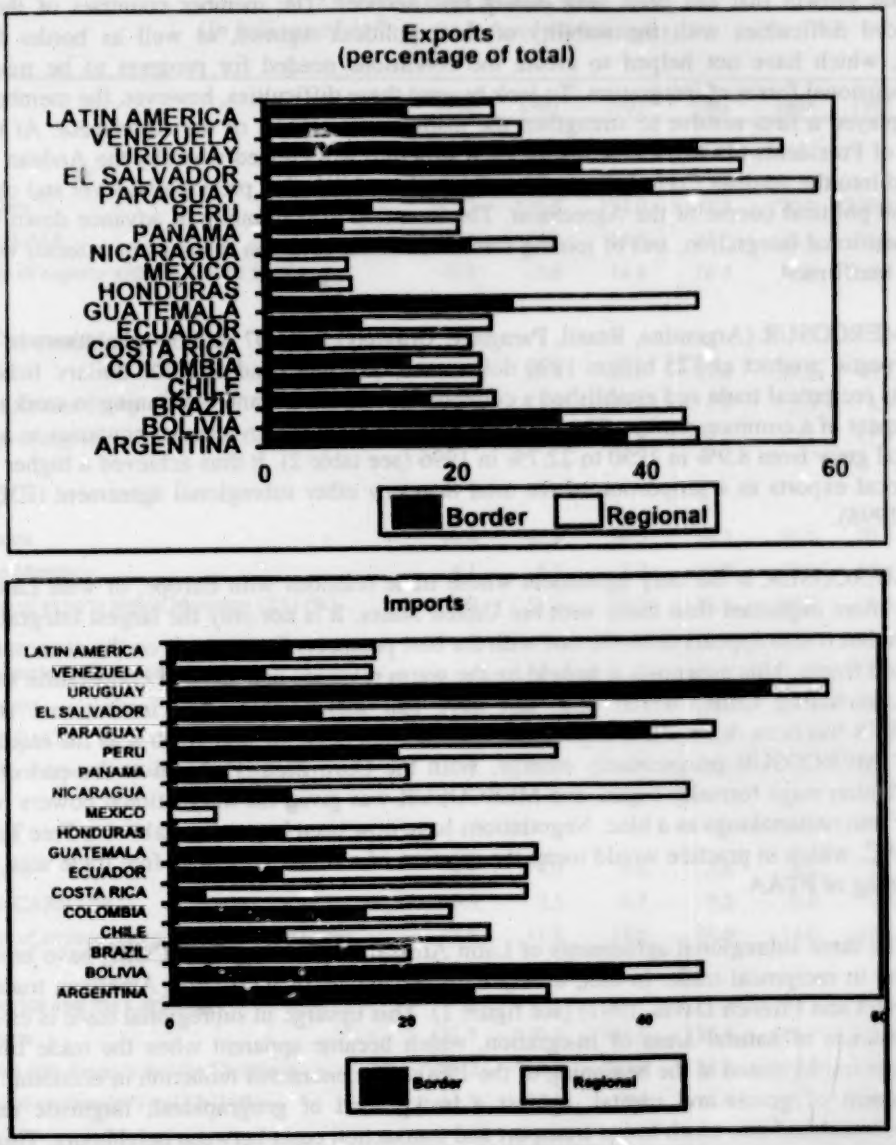
MERCOSUR is the only agreement whose trade relations with Europe, or with Latin America itself, are more important than those with the United States. It is not only the largest integration bloc in the region, but it also appears to be the one with the best prospects for progress on the economic, political and cultural fronts. This prognosis is upheld by the warm relations and spirit of cooperation shown by its members, including Chile, which does not have full membership. The institutional structure of MERCOSUR has been deliberately kept small, the intention being to strengthen it as the requirements of the "real" MERCOSUR progressively emerge. With the Ouro Preto Protocol at the end of 1994, the Customs Union stage formally began, and MERCOSUR was given the international powers required for it to enter into undertakings as a bloc. Negotiations have now been begun to establish a Free Trade Treaty with the AC, which in practice would mean the creation of a South American free trade area in advance of the signing of FTAA.

The three subregional agreements of Latin America (excluding CARICOM) have brought about an increase in reciprocal trade. In fact, a very high percentage of intra-Latin American trade is border trade (Devlin and Ffrench Davis, 1997) (see figure 1). This upsurge in subregional trade is clearly linked to the existence of natural areas of integration, which became apparent when the trade liberalization strategy was implemented at the beginning of the 1990s. The enormous reduction in economic barriers to the movement of goods and capital, against a background of geographical, linguistic and cultural proximity, translated into much lower transport and transaction costs between neighbours. This led to the emergence of a range of economic ties which had been repressed during the stages of "protected development" (1950-1975), "easy borrowing" (1975-1980) and the "lost decade" (1980-1990).

Multidimensional integration (economic, political and cultural) is highly viable among countries that form natural areas of integration in all these respects. In these countries, important (though still only incipient) steps are being taken in the direction of political integration.

Figure

**INTRAREGIONAL AND BORDER TRADE, 1994**




**Note:** The countries included are those that share borders and have available information. Mexican border trade does not include trade with the United States.

**Source:** IDB, Department of Integration and Regional Programs, Division of Integration, Trade and Hemispheric Issues.

These intentions are explicit in the cases of CACM and the AC. Despite the border differences and political disagreements (sometimes spilling over into warfare) seen in the recent history of these two subregional agreements, the institutional mechanisms of integration have continued to expand in the political sphere: both subregional agreements are creating supranational parliaments using direct election mechanisms, and both have subregional Courts of Justice. Numerous recent declarations by presidents have reaffirmed the intention of coordinating positions and strategies in negotiations with the rest of the world.

In the case of MERCOSUR, political progress towards integration has been manifested in a solemn undertaking that countries which do not respect the democratic structures of constitutionally elected governments may not be members of the agreement. From the point of view of international trading relations, which is what we are concentrating on here, these political rapprochements provide a framework that is favourable to the development of collective and concerted trade policies in negotiations with the rest of the world.

The recent experience of Latin American integration appears to show that much more rapid and solid progress can be made towards the integration of markets if this process takes place within a context of multidimensional integration (economic, political and cultural), especially within regions that form natural areas of integration. Perhaps the fundamental difference between current attempts at integration in Latin America and previous ones is that two essential processes are taking place at the same time: the internationalization of national economies, and the democratization of national states.

The growth of reciprocal trade within the three major subregional agreements (MERCOSUR, AC and CACM) has been spectacular in both absolute and relative terms. Furthermore, exports between agreements have also grown in percentage terms. The trend seems to be for trade to show a dynamism that is directly proportional to the geographical proximity of the parties concerned. In short, south-south trade integration has moved ahead much more quickly than hemisphere-wide or global trade integration (see table 3).

A number of interesting conclusions may be tentatively drawn from the facts set forth above. Firstly, the role of "locomotive" traditionally played by the developed countries in inducing growth in developing ones appears to be declining in importance, and secondly trade within the subregional groupings (south-south trade) is of increasing influence as a stimulant to growth in many countries. These relative trends do not by any means signify that the Latin American countries can afford to ignore hemispheric and world markets, which is where the bulk of their exports go, but they do suggest that dynamic long-term trends are giving an ever more important role to intraregional or intrasubregional south-south trade.

Table 3

**FREE TRADE AREA OF THE AMERICAS (FTAA): DESTINATION OF TOTAL VISIBLE EXPORTS TO MAIN INTEGRATION SCHEMES, 1990 AND 1996**

*(In percentages)*

| Exporting country | FTAA | | Mercosur | | Andean C. | | CARICOM | | NAFTA | | CACM | | LAIA | | World[a] | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1990 | 1996 | 1990 | 1996 | 1990 | 1996 | 1990 | 1996 | 1990- | 1996 | 1990 | 1996 | 1990 | 1996 | 1990 | 1996 |
| 1. Argentina | 40.5 | 56.2 | 14.8 | 33.3 | 4.1 | 4.9 | 0.2 | 0.1 | 17.0 | 9.8 | 0.3 | 0.3 | 25.3 | 46.6 | 12 352 | 23 810 |
| 2. Barbados | 47.6 | 72.0 | 0.0 | 0.1 | 0.3 | 11.3 | 31.2 | 40.6 | 16.1 | 19.9 | 0.0 | 0.0 | 0.3 | 11.4 | 213 | 213 |
| 3. Belize | 64.5 | 48.3 | 0.0 | 0.0 | 0.0 | 0.0 | 8.0 | 3.0 | 56.4 | 45.2 | 0.1 | 0.0 | 1.8 | 1.5 | 105 | 154 |
| 4. Bolivia | 64.8 | 70.7 | 34.5 | 17.6 | 6.5 | 24.3 | 0.0 | 0.0 | 20.1 | 23.7 | 0.0 | 0.0 | 44.8 | 46.9 | 923 | 1 087 |
| 5. Brazil | 37.6 | 44.6 | 4.2 | 15.5 | 2.8 | 4.0 | 0.5 | 0.3 | 27.9 | 21.8 | 0.4 | 0.3 | 10.2 | 23.2 | 31 397 | 47 164 |
| 6. Canada | 77.4 | 83.6 | 0.4 | 0.6 | 0.4 | 0.4 | 0.2 | 0.1 | 76.2 | 82.3 | 0.1 | 0.0 | 1.3 | 1.6 | 125 056 | 199 071 |
| 7. Chile | 29.9 | 36.1 | 7.9 | 11.8 | 3.7 | 6.7 | 0.0 | 0.1 | 17.6 | 16.8 | 0.4 | 0.3 | 12.3 | 19.5 | 8 292 | 14 979 |
| 8. Colombia | 61.6 | 67.7 | 1.1 | 1.8 | 5.5 | 17.3 | 0.8 | 1.5 | 46.1 | 41.4 | 0.9 | 1.7 | 9.6 | 21.7 | 6 765 | 10 976 |
| 9. Costa Rica | 65.6 | 63.6 | 0.2 | 63.6 | 0.6 | 1.9 | 0.9 | 0.8 | 50.0 | 42.7 | 9.5 | 13.3 | 1.9 | 4.8 | 1 456 | 2 882 |
| 10. Dominica | 33.9 | 54.6 | 0.0 | 0.0 | 0.0 | 0.0 | 25.8 | 47.6 | 8.5 | 7.0 | 0.0 | 0.0 | 0.0 | 0.0 | 53 | 50 |
| 11. Ecuador | 70.9 | 63.9 | 0.6 | 3.1 | 6.9 | 9.0 | 0.0 | 0.0 | 53.7 | 40.2 | 1.8 | 2.4 | 10.8 | 17.9 | 2 713 | 4 762 |
| 12. El Salvador | 70.8 | 70.4 | 0.3 | 0.0 | 0.1 | 1.2 | 1.2 | 0.4 | 35.9 | 20.9 | 31.0 | 44.5 | 1.3 | 2.5 | 409 | 1 023 |
| 13. United States | 34.5 | 38.6 | 1.7 | 3.1 | 1.8 | 2.1 | 0.8 | 0.7 | 28.3 | 30.1 | 0.8 | 1.1 | 11.3 | 15.4 | 371 466 | 575 477 |
| 14. Grenada[b] | 40.0 | 52.9 | 2.4 | 2.5 | 0.0 | 0.0 | 28.1 | 35.1 | 9.5 | 15.5 | 0.0 | 0.0 | 2.4 | 2.5 | 21 | 20 |
| 15. Guatemala | 75.8 | 79.3 | 0.0 | 0.2 | 1.6 | 2.6 | 2.0 | 1.2 | 44.2 | 42.6 | 24.8 | 28.5 | 4.7 | 7.4 | 1 163 | 2 031 |
| 16. Honduras | 58.9 | 66.7 | 0.0 | 0.1 | 0.5 | 0.4 | 0.8 | 0.2 | 52.5 | 60.3 | 4.4 | 4.1 | 0.9 | 0.7 | 554 | 845 |
| 17. Jamaica | 49.1 | 53.7 | 1.1 | 0.0 | 0.0 | 0.2 | 6.6 | 3.9 | 41.1 | 49.1 | 0.0 | 0.0 | 1.2 | 0.5 | 1 108 | 1 347 |
| 18. Mexico | 77.3 | 91.6 | 1.6 | 1.6 | 1.4 | 1.2 | 0.5 | 0.2 | 71.3 | 86.4 | 1.6 | 0.9 | 3.3 | 3.5 | 26 247 | 95 199 |
| 19. Nicaragua | 47.2 | 65.1 | 1.4 | 0.0 | 0.3 | 0.8 | 0.1 | 0.2 | 30.7 | 46.7 | 14.4 | 15.5 | 8.0 | 2.5 | 326 | 653 |
| 20. Panama | 65.5 | 70.9 | 0.1 | 0.1 | 2.9 | 3.9 | 0.2 | 0.6 | 48.8 | 51.8 | 13.3 | 13.7 | 5.5 | 4.6 | 337 | 558 |
| 21. Paraguay | 56.7 | 73.7 | 39.6 | 63.2 | 1.6 | 2.9 | 4.2 | 0.0 | 4.5 | 4.4 | 0.1 | 0.0 | 44.4 | 69.3 | 959 | 1 043 |
| 22. Peru | 38.3 | 42.9 | 3.6 | 5.4 | 6.5 | 7.9 | 0.3 | 0.0 | 24.9 | 26.1 | 0.7 | 0.6 | 13.0 | 17.5 | 3 313 | 5 226 |
| 23. Saint Lucia[d] | 36.0 | 36.1 | 0.0 | 0.0 | 0.3 | 0.2 | 16.9 | 16.5 | 19.4 | 19.8 | 0.0 | 0.0 | 0.3 | 0.2 | 120 | 94 |
| 24. Suriname[e] | 17.5 | 22.7 | 4.8 | 10.6 | 0.0 | 0.0 | 1.5 | 1.3 | 11.2 | 10.7 | 0.0 | 0.0 | 4.8 | 10.6 | 473 | 357 |
| 25. Trinidad and Tobago | 77.6 | 85.6 | 0.2 | 1.6 | 2.5 | 3.3 | 15.0 | 24.8 | 58.5 | 52.1 | 0.2 | 0.8 | 3.1 | 7.1 | 2 080 | 2 456 |
| 26. Uruguay | 50.0 | 66.9 | 35.1 | 51.3 | 1.5 | 2.8 | 0.1 | 0.1 | 12.2 | 7.6 | 0.1 | 0.1 | 39.5 | 60.0 | 1 696 | 2 391 |
| 27. Venezuela | 66.2 | 80.8 | 2.0 | 3.7 | 2.7 | 7.5 | 1.5 | 1.4 | 55.2 | 63.2 | 2.0 | 2.0 | 6.7 | 12.7 | 18 037 | 22 633 |
| FTAA[f] | 47.2 | 54.9 | 2.1 | 4.0 | 1.7 | 2.3 | 0.7 | 0.6 | 40.6 | 45.5 | 0.8 | 1.0 | 9.1 | 12.8 | 617 634 | 1 016 501 |
| Mercosur | 39.2 | 49.4 | 8.9 | 23.0 | 3.1 | 4.2 | 0.5 | 0.2 | 23.9 | 17..2 | 0.3 | 0.3 | 16.0 | 32.5 | 46 403 | 74 407 |
| Andean Community | 62.7 | 71.1 | 2.8 | 3.7 | 4.2 | 10.6 | 1.0 | 1.1 | 49.0 | 50.1 | 1.6 | 1.7 | 9.4 | 16.9 | 31 751 | 44 684 |
| CARICOM[g] | 59.4 | 68.4 | 1.0 | 1.7 | 1.2 | 2.3 | 12.1 | 17.2 | 44.3 | 45.1 | 0.1 | 0.4 | 2.5 | 5.2 | 4 174 | 4 691 |
| NAFTA | 46.9 | 54.7 | 1.4 | 2.3 | 1.4 | 1.7 | 0.6 | 0.5 | 41.9 | 48.2 | 0.6 | 0.8 | 8.5 | 10.9 | 522 769 | 869 747 |
| CACM | 66.7 | 69.3 | 0.2 | 0.2 | 0.8 | 1.7 | 1.2 | 0.7 | 45.6 | 42.0 | 16.0 | 20.9 | 3.0 | 4.5 | 3 907 | 7 433 |
| LAIA | 54.0 | 70.3 | 5.4 | 9.6 | 3.0 | 4.4 | 0.6 | 0.4 | 41.6 | 52.3 | 1.0 | 0.8 | 10.9 | 16.6 | 112 694 | 229 270 |

**Source**: ECLAC, on the basis of official figures.

**Notes**: [a] Millions of current dollars. [b]There are no data available for 1996; the 1996 column gives 1991 figures. [c] The data for 1996 include assembly plant exports. [d] There are no data available for 1996: the 1996 column gives 1995 figures. [e] There are no data available for 1996: the 1996 column gives 1992 figures. [f] Gives the sum total for the 27 countries returning information. [g]Gives the sum total for the 8 countries returning information.

## VI. GLOBALIZATION AND SOUTH-SOUTH TRADE

In 1990, developed countries accounted for 72.4% of world imports, and developing countries for 22.1%. The remainder was accounted for by transitional economies. In percentage terms, the share of the developed countries in world trade had not changed to any great extent since the 1960s. By 1994, however, the share of developing countries had risen to 29% and that of developed countries had fallen to 68%.

During the 1990s different trends have emerged, these being attributable perhaps to the globalization process that is underway. In the period 1990-1995, the value of imports grew at an average annual rate of 7.7% in the world as a whole, 5.9% in the developed countries, and 12.7% in the developing countries. In the case of Latin America, import growth was even more dynamic, the figure being 15.7%. In terms of volume, imports grew by 6.3% in the world as a whole, 5.1% in the developed countries, and 10.5% in the developing countries, the figure for Latin America being 12.8%. The fact that the rate of import growth in the developing countries was more than double that seen in the developed countries (in terms of both value and volume) is without precedent in the last thirty years. If this trend continues, at some point in the first decades of the next century the ability of these countries to stimulate the world economy will end up being greater than that of the developed countries.

During the period 1990-1995, exports grew in value by 8.2% annually in the world as a whole, by 12.1% in the developed countries, and by 10.8% in the developing countries. In Latin America this figure was 9.1%. It is worth noting that the developed countries have been more dynamic in terms of the **value** of their exports; but in terms of the **volume** exported the developing countries are more dynamic than the developed ones. Thus, the rate of growth in the volume of exports during the first five years of this decade was 6% for the world as a whole, 5.1% for the developed countries and 9% for the developing ones. In other words, the terms of trade have been highly favourable to the developed countries, and it is this that explains why, in percentage terms, growth in the **volume** exported by them has been lower, but growth in the **value** of their exports has been higher than in the case of the developing countries. In the case of Latin America, however, growth in the volume of exports, at 7.6%, was lower than the growth in their value (see table 4).

During a large part of the post-war period the developed countries acted as a "locomotive" for developing countries. The economic cycle of the developed countries was what determined the growth patterns and opportunities of the developing countries. This fact was attributable to the sharp division of labour that prevailed between north and south. The countries of the north (central) specialized in producing and exporting manufactured goods, while those of the south (peripheral) specialized in turning out primary or semi-manufactured products which were very intensive in natural resources and had low value added. Consequently, when the developed countries were at the peak of their cycle, their imports of industrial inputs from the developing countries increased, and when they were at the trough of their cycle (or in severe recessions), purchases of this kind were cut back or discontinued.

Table 4

**GROWTH IN INTERNATIONAL TRADE, 1960-1995**

*(Average annual %)*

| | Whole world | Developed countries | United States | Japan | European Union | Developing countries | Latin America[b] | Middle East | Asia[b] | Africa | Transitional economies |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **1960-1970** | | | | | | | | | | | |
| Real GDP | 5.2 | 5.1 | 4.4 | 10.3 | 4.7 | 5.8 | 5.5 | 6.2 | 5.1 | 5.4 | 6.7 |
| Export by volume | 7.4 | 8.4 | 6.6 | 16.0 | 8.8 | 7.9 | 3.1 | 9.5 | 6.5 | 11.4 | ... |
| Export by value | 9.3 | 10.1 | 7.8 | 16.9 | 10.4 | 7.4 | 5.7 | 9.3 | 6.7 | 9.0 | ... |
| Import by volume | 8.6 | 9.5 | 9.3 | 14.4 | 8.9 | 5.3 | 4.9 | 6.3 | 6.0 | 4.2 | ... |
| Import by value | 9.2 | 10.3 | 10.2 | 15.4 | 10.1 | 6.7 | 6.3 | 7.4 | 6.9 | 5.3 | ... |
| **1970-1980** | | | | | | | | | | | |
| Real GDP | 3.7 | 3.1 | 2.8 | 4.4 | 2.9 | 5.5 | 5.6 | 6.4 | 6.1 | 6.2 | 5.2 |
| Export by volume | 5.1 | 6.4 | 6.2 | 9.7 | 5.0 | 0.4 | 2.2 | -1.3 | 8.3 | -2.7 | 6.1 |
| Export by value | 20.3 | 18.8 | 18.2 | 20.8 | 19.3 | 25.9 | 20.6 | 34.3 | 25.8 | 21.7 | 14.9 |
| Import by volume | 5.4 | 4.9 | 4.7 | 5.0 | 5.5 | 7.8 | 7.4 | 16.3 | 7.6 | 7.8 | 8.3 |
| Import by value | 20.2 | 19.5 | 21.2 | 22.0 | 19.8 | 23.8 | 21.7 | 33.6 | 23.5 | 22.2 | 13.6 |
| **1980-1985** | | | | | | | | | | | |
| Real GDP | 2.0 | 2.4 | 2.9 | 3.9 | 1.5 | 1.9 | 0.6 | 0.5 | 5.3 | 1.0 | 2.1 |
| Export by volume | 2.5 | 3.4 | -0.2 | 7.4 | 1.7 | -1.4 | 5.5 | -12.3 | 7.4 | -4.8 | 5.1 |
| Export by value | -0.6 | 0.5 | -0.2 | 6.2 | -1.1 | -4.4 | 0.8 | -14.3 | 2.5 | -8.3 | 0.5 |
| Import by volume | 2.7 | 3.2 | 6.8 | 1.7 | 1.8 | 0.2 | -5.9 | 0.6 | 4.9 | -2.5 | 3.1 |
| Import by value | -0.4 | -1.4 | 7.1 | -1.6 | -3.0 | -2.6 | -8.1 | -2.0 | 2.5 | -6.3 | -1.3 |
| **1985-1990** | | | | | | | | | | | |
| Real GDP | 3.3 | 3.2 | 3.0 | 4.6 | 3.1 | 3.4 | 1.9 | 1.3 | 6.9 | 2.4 | 0.8 |
| Export by volume | 6.4 | 5.3 | 8.2 | 2.9 | 9.9 | 8.2 | 5.1 | 7.9 | 12.7 | 2.4 | -1.6 |
| Export by value | 12.1 | 14.0 | 12.5 | 10.3 | 15.9 | 11.5 | 5.8 | 7.3 | 18.6 | 3.1 | 1.0 |
| Import by volume | 7.1 | 6.5 | 3.7 | 9.9 | 7.6 | 6.4 | 6.4 | -3.5 | 13.5 | 0.0 | 0.6 |
| Import by value | 12.0 | 14.6 | 7.4 | 12.6 | 16.1 | 13.4 | 9.7 | 2.9 | 19.0 | 5.3 | 3.5 |
| **1990-1995** | | | | | | | | | | | |
| Real GDP | 1.7 | 1.5 | 1.9 | 1.3 | 1.3 | 4.8 | 3.0 | 2.3 | 7.6 | 1.6 | -7.7 |
| Export by volume | 6.0 | 5.1 | 6.3 | 1.8 | 4.9 | 9.0 | 7.6 | 4.3 | 15.0 | 1.1 | -15.1[c] |
| Export by value | 8.2 | 12.1 | 8.2 | 9.0 | 6.1 | 10.8 | 9.1 | 2.9 | 15.8 | 0.2 | -0.2 |
| Import by volume | 6.3 | 5.1 | 7.0 | 6.1 | 3.7 | 10.5 | 12.8 | 2.2 | 14.0 | 2.0 | -8.1[d] |
| Import by value | 7.7 | 5.9 | 8.3 | 7.7 | 4.3 | 12.7 | 15.7 | 10.2 | 16.1 | 5.1 | -3.8 |

**Source:** UNCTAD, *Handbook of International Trade and Development Statistics, 1988*, New York, 1989. United Nations Publication, Sales No. E/F.88.II.D.11; *Handbook of International Trade and Development Statistics, 1994*, New York, 1995. United Nations publication, Sales No. E/F.95.II.D.15; and *Trade and Development Report, 1996*, New York, 1996. United Nations publication, Sales No. E.96.II.D.6; *World Economic and Social Study, 1996*, New York, 1996. United Nations Publication, Sales No.E.96.II.C.1, and *Monthly Bulletin of Statistics*, New York, various editions.

[a] Includes 19 countries, with ECLAC figures. [b] Includes China. [c] Only runs up to 1992. [d] Only runs up to 1993.

In the current situation of economic globalization, these trends appear to be changing. Approximately 70% of world trade (UNCTAD, 1995) involves transnational companies (as customers or suppliers), and to an ever-increasing extent the international trade growth of "tomorrow" depends on what is happening "today" in the sphere of foreign direct investment. This trend is especially marked in the case of trade in manufactures, which is the most dynamic.

In the north-south relationship, the trade in manufactures is increasingly moving **away** from the traditional pattern of production specialization, whereby centres exported manufactures and peripheries exported primary products. **What characterizes the production globalization process is that the links in the chain of value leading to a final manufactured product are being distributed around numerous countries and regions.** This has come about because of the strategic planning of transnational companies, and is being increasingly facilitated by falling transport and telecommunications costs. Transnational companies are reducing production and transaction costs by siting production plants in those regions which offer the greatest advantages of location. Along the north-south axis, these trends are manifesting themselves in the proliferation of export processing zones on the geographical periphery of the main developed centres of consumption. This is clearly the process that is being seen in the trade relations between Mexico, Central America and the Caribbean on the one hand, and the United States on the other.

In general, foreign direct investment, especially in manufacturing and services, seeks out locations in the larger and more dynamic markets in order to supply these directly. Because of this, the biggest countries (Brazil, China, India, etc.) and regions (areas of increasing integration) are appetizing markets for direct investors. By investing in the south, they can take advantage of the lower labour and environmental costs (permissive legislation) that these countries and regions offer, and of the greater dynamism of their markets. Of course, these advantages need to exist within a framework of political and social stability, in which foreign productive capital receives non-discriminatory national treatment. Consequently, the old pattern with its international division of labour between centre and periphery is being replaced by another one, in which any product (be it of a manufactured, primary or services type) can be produced in any of the numerous countries and regions that have the natural resources and/or the conditions referred to above. The new historical circumstance which makes this shift in world production specialization possible is the increasing international mobility of the technology that "accompanies" geographical movements of transnational production facilities. The fundamental microeconomic incentive that is triggering these movements is the ability to achieve productivity levels comparable with those found in the developed countries, but with the lower costs characteristic of developing countries.

It is these advantages, it would seem, that explain the extraordinary dynamism with which direct investments are now being sited in developing regions. Recent data show that the percentage of total net inflows of foreign direct investment received by the developing countries rose spectacularly from 14.9% in 1990 to 37.7% in 1996 (see table 5). Latin America, for its part, increased its share of these flows, as a percentage of the total received by developing countries, from 26.8% in 1990 to 30.9%. The developing countries of Asia saw their very high share fall off slightly during the same period from 65.6% to 63.3%. The already meagre percentage share of the African countries fell even further, from 6.97% in 1990 to 5.17% in 1996 (see table 6).

Table 5

**TOTAL NET RECEIPTS OF FOREIGN DIRECT INVESTMENT, BY BLOCS OF COUNTRIES, 1990-1996**

*(In millions of constant 1990 dollars)*

| Years | Developed countries[a] | Transitional economies[b] | Developing countries | World economy |
|---|---|---|---|---|
| 1990 | 176 346 | 300 | 30 979 | 207 625 |
| 1991 | 109 534 | 2 336 | 39 849 | 151 719 |
| 1992 | 112 071 | 4 161 | 47 883 | 164 115 |
| 1993 | 127 188 | 5 763 | 66 245 | 199 196 |
| 1994 | 124 254 | 5 133 | 81 768 | 211 155 |
| 1995 | 175 363 | 12 195 | 86 034 | 273 592 |
| 1996 | 174 053 | 10 249 | 111 812 | 296 114 |

**Source:** ECLAC, Database of the Unit on Investment and Corporate Strategies, Division of Production, Productivity and Management, on the basis of information supplied by the International Monetary Fund (IMF), the United Nations Conference on Trade and Development (UNCTAD) and competent national bodies.

[a] All the countries of the OECD except for Mexico, Korea and the Czech Republic, plus Israel, New Zealand and South Africa.

[b] Refers to the countries of central and eastern Europe.

Table 6

**NET RECEIPTS OF FOREIGN DIRECT INVESTMENT IN DEVELOPING COUNTRIES, BY REGION, 1985-1996**

*(In millions of constant 1990 dollars)*

| Region | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | Total |
|---|---|---|---|---|---|---|---|---|
| Africa | 2 160 | 2 626 | 2 950 | 3 383 | 4 796 | 4 003 | 4 137 | 24 055 |
| Latin America and the Caribbean | 8 359 | 14 715 | 16 590 | 15 858 | 26 369 | 25 636 | 35 431 | 143 959 |
| Developing Europe[a] | 149 | 186 | 216 | 247 | 322 | 314 | 477 | 1 912 |
| Developing Asia | 20 311 | 22 322 | 28 126 | 46 758 | 50 282 | 56 081 | 70 766 | 294 646 |
| **Annual total** | **30 979** | **39 848** | **47 883** | **66 246** | **81 769** | **86 034** | **111 812** | **464 571** |

**Source:** ECLAC, Database of the Unit on Investment and Corporate Strategies, Division of Production, Productivity and Management, on the basis of information supplied by the International Monetary Fund (IMF), the United Nations Conference on Trade and Development (UNCTAD) and competent national bodies.

[a] Includes Bosnia and Herzegovina, Croatia, Malta, Slovenia, the former Yugoslav Republic of Macedonia and Yugoslavia.

Given the current trends in production globalization, the strategic objectives of transnational companies do not always coincide with those of the developed countries in which they have their headquarters. At the very least, these objectives do not coincide with those of unskilled workers in the developed countries who lose their jobs when manufacturing subsidiaries are moved to southern regions with lower wage costs. This is giving rise to issues of huge complexity and importance, such as the impact of increasing production globalization around the world on the integrity of the nation state and national societies, including those of the developed world.

It is worth drawing an obvious distinction between transnational productive capital which is sited in the larger and more dynamic countries and regions of the south in the form of direct investment, and short-term financial capital which is confined to the currency and stock markets, and which can cause severe damage to developing economies. Reference to the Mexican crisis of 1994, or to the more recent ones in south-east Asia, enables us to identify volatile speculative flows of this type fairly clearly.

To avoid the serious effects of financial globalization, there may be a need for multilateral ground rules, applicable worldwide, to regulate global movements of capital. The only recent (though unsuccessful) efforts in this direction were those made within the framework of the OECD in an attempt to establish a multilateral agreement on investment. The countries of the south have a particularly legitimate interest in securing a presence in these forums, and in presenting a common front there.

Within individual developing countries or groups of countries, there are mechanisms designed to forestall the effects of financial, exchange and stock market volatility, such as: application of reserve requirements or taxes, prudential regulation of capital movements, accumulation of international reserves, gradual adjustments in real exchange rates, etc. (ECLAC, 1997).

In view of these new trends associated with the globalization of production and finance, we now need to ask in what way south-south cooperation can help to strengthen the economic position of developing countries.

To do this, it is important to distinguish between intraregional and inter-regional action. As regards intraregional action, regional integration emerges as a renewed and powerful instrument. The integration process needs to take advantage of all the economic, cultural and political opportunities that derive from ever closer union between the member countries, rather than limiting itself to a "market-oriented" approach. Thus, in the context of this increasingly globalized international division of labour, economic integration can serve to attract desirable investment of a kind that is oriented towards production, creates jobs and transfers technology, and to discourage the undesirable, short-termist, volatile and speculative kind. Desirable investment is stimulated by large markets that offer the prospect of sustained and steady economic growth and political and social stability.

The recent progress made towards subregional integration in Latin America illustrates what was said in the last paragraph. The two essential features which explain the upsurge in reciprocal trade and investment within these agreements are openness to the process of world economic globalization, and democratization of political systems. Economically stable and dynamic markets in the subregion are expanded to a size that is more attractive to investors than the national markets alone. Strategies for productive investment in the manufacturing, industrial and services sectors are repositioned to take advantage of the wider subregional market. Specialization and economies of scale enable the efficiency of the production process to be improved, and the expansion of the market improves conditions for competitiveness and responsiveness.

Integration secures the position of national democratic regimes, as democracy is made a precondition for membership of the "club", and makes it possible to develop joint strategies and policies to defend common interests when negotiating with outside countries or regions. Regional integration, in its widest and deepest sense, expresses much more than the mere economic liberalization of markets. It provides an opportunity to take advantage of all the strengths, deriving from proximity in terms of geography, economies, politics, culture, etc., which belong to natural areas of integration. The historical, linguistic, religious and, in general, cultural unity of many regions of the south makes them just such areas, and advantage should be taken of this.

## VII. CONCLUSIONS

In Latin America, the member states of the Subregional Agreements, respecting democratic internal regimes and committed to far-reaching integration (customs unions as a step towards common markets), are improving their growth potential, attracting direct investment and increasing their weight in international affairs by coordinating their economic and political positions and seeking to negotiate jointly in the relevant forums. This process could be an important point of reference for other regions of the world that are considering how to achieve subregional integration.

It is also probable that the success of negotiations to develop the Global System of Trade Preferences between Developing Countries (GSTP) will largely be determined by the extent to which liberalization of reciprocal trade on the basis regional integration acts as a stepping stone to liberalization between regions. It should be borne in mind that the percentage share of south-south trade at the regional level is much higher and is growing more dynamically than is south-south trade between regions. Those economies that have liberalized their reciprocal trade are better placed to extend these preferences to other regions of the south.

In respect of this, we can read in a recent report: "The outcome of previous efforts towards liberalization at the regional and subregional level makes it clear that no large-scale liberalization can be expected within the framework of the GSTP if negotiations are carried out product by product" (South Centre, 1997). Latin America used this mechanism during its protected development stage, the principle being that protection continued to apply to everything that was not negotiated in specific lists. Only when the opposite principle was adopted (removing tariffs from all products not included in exemption lists) was any substantial progress made towards Latin American integration. But this massive lifting of barriers has not been limited to trade alone. All the subregions that have liberalized their internal trade are creating ties of profound integration, and these are enabling them to devise increasingly coordinated policies for action at the inter-regional level.

It is much more likely that countries in the south which are already members of customs unions or common markets that have freed up reciprocal trade will be willing and able to agree to large-scale negotiations aiming at across-the-board removal of trade barriers within the framework of the GSTP.

If this view of the matter is accepted, then it follows that both levels of south-south integration need to be developed. The more progress has been made in regional integration between neighbouring countries of the south, the better will be the prospects for making progress towards trade integration with other regions, whether this be through the GSTP or through the other channels established within the WTO.

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